

September 2008

MILITARY OPERATIONS

DOD Needs to Address Contract Oversight and Quality Assurance Issues for Contracts Used to Support Contingency Operations



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Highlights of [GAO-08-1087](#), a report to congressional committees

Why GAO Did This Study

The Department of Defense (DOD) uses contractors to meet many of its logistical and operational support needs. With the global war on terrorism, there has been a significant increase in deployment of contractor personnel to areas such as Iraq and Afghanistan. In its fiscal year 2007 report, the House Appropriations Committee directed GAO to examine the link between the growth in DOD's operation and maintenance costs and DOD's increased reliance on service contracts. GAO determined (1) the extent to which costs for selected contracts increased and the factors causing the increases, (2) the extent to which DOD provided oversight for selected contracts, and (3) the reasons for DOD's use of contractors to support contingency operations. To address these objectives, GAO reviewed a nonprobability sample of seven DOD contracts for services that provide vital support to contingency operations in Iraq and Afghanistan. GAO reviewed contract requirements, funding documents and DOD guidance for these contracts and interviewed DOD and contractor personnel.

What GAO Recommends

To ensure effective oversight, GAO recommends that DOD adequately staff oversight positions with qualified personnel, and address inconsistencies in maintaining contract files and implementing quality assurance principles. DOD concurred with each of GAO's recommendations and stated the Army was aware of and addressing the identified problems.

To view the full product, including the scope and methodology, click on [GAO-08-1087](#). For more information, contact William M. Solis at (202) 512-8365 or solisw@gao.gov.

MILITARY OPERATIONS

DOD Needs to Address Contract Oversight and Quality Assurance Issues for Contracts Used to Support Contingency Operations

What GAO Found

Costs for six of the seven contracts GAO reviewed increased from an initial estimate of \$783 million to about \$3.8 billion, and one consistent and primary factor driving the growth was increased requirements associated with continued military operations in Iraq and Afghanistan. For example, the Army awarded a \$218.2 million task order for equipment maintenance and supply services in Kuwait in October 2004. Since then, approximately \$154 million of additional work was added to this task order for vehicle refurbishment, tire assembly and repair, and resetting of prepositioned equipment. Other factors that increased individual contract costs include the use of short-term contract extensions and the government's inability to provide contractually required equipment and services. For example, in three of the contracts GAO reviewed, short-term contract extensions (3 to 6 months) increased costs because the contractor felt it was too risky to obtain long-term leases for vehicles and housing. The actual cost of one contract we reviewed did not exceed the estimated cost for reasons such as lower than projected labor rates.

GAO has frequently reported that inadequate staffing contributed to contract management challenges. For some contracts GAO reviewed, DOD's oversight was inadequate because it had a shortage of qualified personnel and it did not maintain some contract files in accordance with applicable guidance. For five contracts, DOD had inadequate management and oversight personnel. In one case, the office responsible for overseeing two contracts was short 6 of 18 key positions, all of which needed specialized training and certifications. In addition, for two other contracts, proper accounting of government owned equipment was not performed because the property administrator position was vacant. Second, DOD did not always follow guidance for maintaining contract files or its quality assurance principles. For four contracts, complete contract files documenting administration and oversight actions taken were not kept and incoming personnel were unable to determine how contract management and oversight had been performed and if the contractor had performed satisfactorily prior to their arrival. In addition, oversight was not always performed by qualified personnel. For example, quality assurance officials for the linguist contract were unable to speak the language so they could not judge the quality of the contractor's work. Without adequate levels of qualified oversight personnel, proper maintenance of contract files, and consistent implementation of quality assurance principles, DOD may not be able to determine whether contractors are meeting their contract requirements, which raises the potential for waste.

DOD used contractors to support contingency operations for several reasons, including the need to compensate for a decrease in force size and a lack of capability within the military services. For example, an Army contract for linguist services had a requirement for more than 11,000 linguists because DOD did not have the needed linguists. According to Army officials, the Army phased out many interpreter positions years ago and did not anticipate a large need for Arabic speakers.

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Abbreviations

| | |
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| APS | Army Prepositioned Stock |
| DFARS | Defense Federal Acquisition Regulation Supplement |
| DOD | Department of Defense |
| FAR | Federal Acquisition Regulation |
| FPRA | Forward Pricing Rate Agreement |
| GAO | Government Accountability Office |
| HMMWV | High Mobility Multi-Wheeled Vehicle |
| LOGCAP | Logistics Civil Augmentation Program |
| O&M | Operations and Maintenance |

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United States Government Accountability Office
Washington, DC 20548

September 26, 2008

Congressional Committees

The Department of Defense (DOD) uses contractors to meet many of its logistical and operational support needs during combat operations and peacekeeping and humanitarian assistance missions. According to DOD, the scale and duration of global war on terrorism operations have required a significant increase in contractor support and in deployment of contractor personnel to areas such as Iraq and Afghanistan. Moreover, this reliance on contractors continues to grow, and DOD has reported that future deployments of DOD military forces are anticipated to require similar levels of support.¹ In Iraq, Afghanistan, and throughout Southwest Asia, contractors provide deployed U.S. forces with communication services, interpreters who accompany military patrols, base operations support (e.g., food and housing), weapon systems maintenance, intelligence analysis, security services, and a variety of other support. As of April 2008, DOD estimated that it had more than 164,000 contractors in Iraq, costing billions of dollars each year. DOD reported that contingency contract obligations for fiscal years 2003 through 2006 totaled nearly \$44 billion. In August 2008, the Congressional Budget Office reported that DOD's fiscal years 2003 through 2007 contingency contract obligations for the Iraq theater were \$76 billion.

In its fiscal year 2007 report accompanying the DOD Appropriations Bill, the House Appropriations Committee directed GAO to examine the link between the growth in DOD's operation and maintenance costs and, among other things, DOD's increased reliance on service contracts.² This is the third report we have issued in response to this direction. In May 2007, we issued a report that examined the trends in operation and maintenance costs for fiscal years 1995 through 2005.³ In January 2008, we issued a report addressing oversight weaknesses related to a maintenance and

¹ Department of Defense, *Report on DOD Program for Planning, Managing, and Accounting for Contractor Services and Contractor Personnel during Contingency Operations* (October 2007).

² H.R. Rep. No. 109-504, at 46-47 (June 2006).

³ GAO, *Defense Budget: Trends in Operations and Maintenance Costs and Support Services Contracting*, [GAO-07-631](#) (Washington, D.C.: May 18, 2007).

supply services contract in Kuwait.⁴ This report examines issues related to cost, oversight, and use of contractors to support contingency operations. Our reporting objectives are to determine (1) the extent to which costs for selected contracts supporting contingency operations increased and the factors causing the increases, (2) the extent to which DOD provided oversight for selected contracts that support contingency operations, and (3) the reasons for the department's use of contractors to support contingency operations for the contracts we reviewed, as well as other contracts.

To accomplish our objectives, we conducted a case study review of a nonprobability sample of six DOD contracts and one task order for services that support contingency operations.⁵ To obtain our sample, we relied on DOD and our own work. Specifically, due to the unavailability of a complete list of contracts supporting contingency operations, DOD provided us a list of 34 contracts, based on criteria we developed. These criteria included: the contract supported deployed forces; Operations and Maintenance (O&M) funds were used to pay for the contract services; the principal place of performance was within Central Command's Area of Operation; the contract was to maintain a weapons system(s) and/or provide support; the contract was still in effect; and the contractor was U.S. based. In addition to these contracts, based on our own research and experience from past audit work, we generated a list of eight contracts that also met the criteria to supplement those provided by DOD. From the combined list, we selected for case study review our nonprobability sample of seven contracts providing various services such as base operations support, security, equipment maintenance, and linguist services. Factors that influenced the case study selection included previous GAO reviews on contracts supporting contingency operations, type of contract service provided, location where the contractor's work was performed, and contract dollar amount. Our selection of contracts did not allow us to project our findings across the universe of DOD contracts for services that support contingency operations. For each contract selected, our review covered from the beginning of the contract until it ended or June 2008, whichever occurred first.

⁴ GAO, *Defense Logistics: The Army Needs to Implement an Effective Management and Oversight Plan for the Equipment Maintenance Contract in Kuwait*, [GAO-08-316R](#) (Washington, D.C.: January 22, 2008).

⁵ Throughout this report, we refer to the six contracts and the one task order as the seven contracts.

To determine the extent to which selected contracts supporting contingency operations experienced cost increases, we reviewed contract requirements and funding documents for our case study contracts and interviewed contracting office officials regarding changing requirements and cost increases. We also interviewed contractor personnel to obtain their views related to changing requirements and increasing contract costs. To determine the extent to which DOD provided oversight of contracts that support contingency operations, we compared authorized oversight positions to actual on-hand oversight personnel involved in contract oversight. We also interviewed Army and contractor personnel to determine the number of oversight personnel involved in providing oversight and the types of oversight provided. To determine the reasons the department uses contractors to support contingency operations, we interviewed contracting office officials and reviewed and compared available guidance and documentation related to DOD's decision to use contractors instead of military personnel for the contracts.

We conducted our review from November 2006 through August 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. A more detailed description of our scope and methodology is included in appendix I.

Results in Brief

Beginning in September 2000 and covering a period of about eight years, the total cost for six of the seven contracts we reviewed increased from an initial estimate of \$783 million to about \$3.8 billion.⁶ While other factors contributed to individual contract cost growth, one consistent and primary factor driving the growth was increased requirements associated with continued military operations in Iraq and Afghanistan. For example, in October 2004 the Army awarded a \$218.2 million task order for equipment maintenance and supply services in Kuwait. Since that time, approximately \$154 million of additional work was added to this task order for High Mobility Multi-Wheeled Vehicle (HMMWV) refurbishment, tire assembly and repair, and resetting of prepositioned equipment (\$33

⁶ The seven contracts we reviewed were awarded at different times. See table 1 for information on when each of the contracts began.

million, \$16.6 million, and \$104.3 million, respectively). Other factors that increased costs for the contracts we reviewed included the use of short-term contract extensions and the government's inability to provide contractually required equipment and services. For example, in three of the contracts we reviewed, short-term contract extensions (3 to 6 months) increased costs because the contractor felt it was too risky to obtain long-term leases for vehicles and housing. We also found that one contract's costs increased because the Army was unable to provide the contractor with personal protective equipment even though the contract stated the government would do so. According to contracting office officials, there was a limited supply of authorized equipment which was issued to deployed military units. As a result, the contractor purchased the equipment at a cost of approximately \$600,000 and the government reimbursed the contractor, including the cost of overhead expenses associated with the purchase. The actual total cost of one contract we reviewed did not exceed the estimated cost for reasons such as lower than projected labor rates.

DOD's oversight of some of the contracts we reviewed was inadequate due to (1) a shortage of qualified oversight and contract administration personnel and (2) because it did not maintain some contract files in accordance with applicable policy and guidance. GAO and others have frequently reported that inadequate staffing contributed to contract management challenges in Iraq and elsewhere. In both 2004 and 2006 we reported that oversight personnel told us that DOD does not have adequate personnel at deployed locations to effectively oversee and manage contractors and we found a similar situation for five of the seven contracts we reviewed. For example, in the contracting office that managed both the base operations and security services contracts we reviewed, 6 of 18 oversight positions were vacant. As of April 2008, 4 of the 6 positions had been vacant for 7 months or more and the other 2 had been vacant for 4 and 6 months. The six vacant positions all need specialized training and certifications and were judged by the Army to be key oversight and management positions. One of these vacant positions was the performance evaluation specialist who, according to the Army position description, among other tasks, is responsible for managing the Army's quality assurance program for two multi-million dollar contracts and training other quality assurance personnel. Other vacant positions included three contract specialists, who are responsible for, among other tasks, reviewing monthly contractor invoices. As a result, the contracting officer's representative was reviewing contractor invoices, a responsibility for which he said he was not trained. According to the contracting officer's representative, the invoices required closer scrutiny than he was able to

provide and he often did not know if the invoices included valid expenses. In addition, the contracting officer's representative had oversight responsibilities for five additional contracts and his primary assignment as the base's Provost Marshal did not always allow him time to complete his contract oversight responsibilities. According to the contracting officer, it was difficult to find qualified candidates and numerous applicants were rejected because they did not have the right skills. Second, we found that, for some contracts, DOD did not always follow policy and guidance for maintaining contract files and it did not follow established quality assurance principles. According to the Federal Acquisition Regulation (FAR), the contract administration office shall, unless otherwise specified, maintain as part of the performance records of the contract, suitable records reflecting the nature of quality assurance actions.⁷ The regulation states that contract files must be organized to a level sufficient to ensure that they are readily accessible to principal users and, if needed, a locator system should be established to ensure the ability to locate promptly any contract files.⁸ However, for three of the contracts we reviewed—including two award fee contracts—the contracting offices did not maintain complete contract files documenting contract administration and oversight actions taken. As a result, incoming contract administration personnel were unable to determine how contract management and oversight had been performed and the extent to which the contractor had performed satisfactorily prior to their arrival. Some contracting office personnel whom we spoke with stated that previous contracting office personnel had not properly documented and maintained all contract actions; however, they could not explain why, given that this occurred prior to their assignments. Finally, according to an Army regulation, management of a comprehensive quality program requires subject matter practitioners with quality expertise.⁹ However, we found that assigned contract oversight personnel for the linguist contract were unable to judge the contractor's performance because they were generally unable to speak the languages of the contractor employees they were responsible for overseeing. Without adequate levels of qualified oversight personnel,

⁷ FAR § 46.104(c).

⁸ FAR § 4.802 (c) & (d).

⁹ Army Regulation 702-11, "Army Quality Program," prescribes the policies and responsibilities of an Army quality program applicable to all Army activities that acquire services. The March 2007 version of the regulation supersedes AR 702-11, dated April 15, 1979, and includes a major revision defining the core competencies fundamental to an effective quality program.

proper maintenance of contract files, and consistent implementation of quality assurance principles, DOD's ability to perform the various tasks needed to monitor contractor performance may be impaired. In addition, until DOD is able to obtain reasonable assurance that contractors are meeting their contract requirements efficiently and effectively, it may not be able to make fully informed decisions related to award fees as well as additional contract awards. Although our selection of contracts did not allow us to project our findings across all DOD contracts for services that support contingency operations, we believe the potential for these weaknesses exists in other DOD contracts supporting contingency operations that are managed by the same contract oversight and administration offices and processes. Unless DOD can determine that inadequate oversight and insufficient staff are not problems across the department, the potential for waste exists in other DOD contracts supporting contingency operations.

For the contracts we reviewed, DOD used contractors to support contingency operations for several reasons, including the need to compensate for a decrease in force size and a lack of capability within the military services. For example, in fiscal year 2002, Congress provided the Air Force with \$1.5 billion to acquire 60 additional unmanned Predator aircraft; however, according to Air Force documents, the Air Force did not have the additional 1,409 personnel needed to maintain these new assets. As a result, the Air Force used contractors to support the additional aircraft. In another example, in February 2007 an Army contract that provided linguist services had a requirement for more than 11,000 linguists because DOD did not have the number of linguists needed. According to Army officials, years ago the Army phased out many interpreter military occupational specialties and did not anticipate a large requirement for Arabic speakers, thereby creating the shortfall. A third contract we reviewed provided, among other things, for the repair of severely damaged Army Stryker vehicles. According to contracting office officials, the repair and maintenance of Army Stryker vehicles was contracted out because DOD did not have personnel with the specific skills needed to repair the Stryker. Furthermore, according to various GAO, DOD, and RAND reports, other reasons the department used contractors included a governmentwide policy encouraging contracting for commercial activities, the need to obtain contractor support in order to deploy weapon systems before they are fully developed, and the increasingly complex nature of DOD weapon systems.

We are making several recommendations to ensure that DOD is able to exercise effective oversight over the contracts we reviewed, including that

DOD develop a plan to adequately staff oversight positions with qualified personnel, take steps to determine why guidance for maintaining contract files is not consistently being followed and implement a corrective action plan, and ensure that quality assurance principles are consistently implemented. In addition, we recommend that the DOD conduct a review of contract administration functions for contingency operations contracts to determine the prevalence of inadequate contract oversight and administration staffing levels and the extent to which guidance for maintaining contract files and quality assurance principles are not being consistently followed, and to take corrective actions as necessary.

In commenting on a draft of this report, DOD concurred with our recommendations and discussed actions planned and already taken to address the identified weaknesses. While DOD's actions should be viewed as positive steps, in the near term they will not address the issues we highlighted in this report. DOD provided technical comments which we incorporated as appropriate. DOD's comments are reprinted in appendix II.

Background

The individual military services and a wide array of DOD and non-DOD agencies award contracts to support contingency operations.¹⁰ Within a service or agency, numerous contracting officers, with varying degrees of knowledge about how contractors and the military operate in deployed locations, can award contracts that support contingency operations. According to DOD estimates, in 2005 several hundred contractor firms provided U.S. forces with a range of services at deployed locations. The customer (e.g., a military unit) for these contractor-provided services is responsible for identifying and validating requirements to be addressed by the contractor as well as evaluating the contractor's performance and ensuring that contractor-provided services are used in an economical and efficient manner. In addition, DOD has established specific policies on how contracts, including those that support contingency operations, should be administered and managed. Oversight of contracts—which can refer to contract administration functions, quality assurance surveillance, corrective action, property administration, and past performance

¹⁰ For example, in 2003 DOD relied on a Department of the Interior contracting office that specializes in awarding and administering contracts for other agencies to obtain contractor-provided intelligence-related services quickly to support U.S. forces in Iraq. See GAO, *Interagency Contracting: Problems with DOD's and Interior's Orders to Support Military Operations*, [GAO-05-201](#) (Washington, D.C.: April 29, 2005).

evaluation—ultimately rests with the contracting officer, who has the responsibility for ensuring that contractors meet the requirements as set forth in the contract. However, as some contracting officers are not located at the deployed location, the contracting officers appoint contract oversight personnel who represent the contracting officer at the deployed location and are responsible for monitoring contractor performance. The way contracts and contractors are monitored at a deployed location is largely a function of the size and scope of the contract. Some contracting officers have opted to have personnel from the Defense Contract Management Agency monitor a contractor's performance and management systems to ensure that the cost, product performance, and delivery schedules comply with the terms and conditions of the contract. Defense Contract Management Agency officials delegate daily oversight responsibilities to individuals drawn from units receiving support from these contractors to act as contracting officer's representatives for specific services being provided. For other contracts, contracting officers usually directly appoint contracting officer's representatives or contracting officer's technical representatives to monitor contractor performance at the deployed locations. These individuals are typically drawn from units receiving contractor-provided services, are not normally contracting specialists, and for whom contract monitoring is an additional duty. They cannot direct the contractor by making commitments or changes that affect price, quantity, quality, delivery, or other terms and conditions of the contract. Instead, they act as the eyes and ears of the contracting officer and serve as the liaison between the contractor and the contracting officer.

The FAR requires contract administration offices to perform all actions necessary to verify whether contracted services conform to contract quality requirements and to maintain records of these actions.¹¹ The Defense Federal Acquisition Regulation Supplement (DFARS) adds an additional requirement for DOD agencies to conduct quality audits to ensure the quality of services meets contractual requirements.¹² Oversight begins with trained personnel being nominated for and assigned oversight responsibilities, and then conducting oversight actions throughout the contract performance period to ensure the government receives the services required by the contract. In addition to the FAR and DFARS, a DOD best practices guide stresses proper documentation. The Guidebook

¹¹ FAR §§ 46.104 and 4.802.

¹² Defense Federal Acquisition Regulation Supplement § 246.102.

for Performance-Based Services Acquisition in the Department of Defense states that an assessment of contractor performance should be documented, whether acceptable or unacceptable, as it is conducted and this official record may be considered past performance information.

A wide selection of contract types is available to the government and contractors to provide needed flexibility in acquiring supplies and services. The contract types are grouped into two broad categories: (1) fixed price and (2) cost reimbursement. The specific contract types range from firm-fixed-priced, in which the contractor has full responsibility for the performance cost and any resulting profit or loss, to cost-plus-fixed-fee, in which the contractor has minimal responsibility for the performance costs and the negotiated fee (profit) is fixed. In between are the various incentive contracts, in which the contractor's responsibility for the profit or fee incentives offered is tailored to the uncertainties involved in contract performance. One such contract type that provides incentives on the basis of performance is cost-plus-award-fee. A cost-plus-award-fee contract is a cost reimbursement contract that provides a fee (base amount plus an award amount) sufficient to motivate the contractor to excel in areas such as quality and timeliness. The amount of the award fee is based on the government's evaluation of the contractor's performance in terms of the contract criteria. Another contract type is indefinite-delivery/indefinite-quantity which provides for an indefinite quantity of supplies or services, within stated limits, during the contract period and the government places orders for individual requirements. As shown in table 1, most of the contracts we reviewed were cost-plus-fixed-fee type contracts. Two of the contracts were cost-plus-award-fee contracts.

Table 1: Information Concerning Contracts We Reviewed

| Contract information | Type of contract | Contract time period | Unit requiring the contract |
|--|---|---|---|
| Linguist Interpretation Services | Cost-plus-fixed-fee | 1 year—6 months and two 90 day option periods ^a 09/2004-09/2005 | Army Intelligence and Security Command |
| Maintenance and Supply Services for Army Prepositioned Stock—Qatar | Hybrid—firm-fixed-price and cost plus incentive fee | 10.25 years—3-month transition and 10 option years 09/01/2000-11/30/2010 | Army Field Support Battalion - Qatar |
| Global Maintenance and Supply Services in Kuwait—Task Order 0001 | Cost-plus-fixed-fee and firm-fixed-price | 5 years—1 base year and 4 option years 12/01/2004-09/29/2009 | Army Field Support Battalion - Kuwait |
| Base Operations Support Services—Qatar | Cost-plus- award-fee | 5 years—1 base year and 4 option years ^b 01/01/2003-09/30/2007 | Army Support Group – Qatar |
| Base Security Support Services—Qatar | Cost-plus- award-fee | 5 years—1 base year and 4 option years ^b 01/01/2003-09/30/2007 | Army Support Group - Qatar |
| Stryker Battle Damage Repair | Cost-plus-fixed-fee | 2.33 years—09/22/2005-01/31/2008 ^c | Army Tank Automotive and Armaments Command |
| Predator Operations and Maintenance | Cost-plus-fixed-fee | 3 years—1 base year and 2 option years 02/10/2005-03/15/2008 | Air Combat Command, Program Management Squadron |

Source: GAO.

^aThis contract was extended several times through June 2008.

^bThese contracts were extended through March 2008.

^cThe Stryker Battle Damage Repair effort was part of the Stryker Interim Contractor Logistics Support contract, which was awarded in May 2002.

We looked at specific contracts that provide a variety of services. While some of these contracts have ended, DOD continues to acquire these services through other contracts. For example, the linguist contract ended in June 2008, but another contract valued at \$4.6 billion was awarded to provide linguist services in Iraq for 5 years. The base operations support and security services contracts ended in March 2008 but two new bridge contracts for these services were awarded. The bridge contracts were for 1 year each and provided for continued operations and security services while bid protests were being decided.

Contract Costs Increased, Primarily Due to Added Requirements to Support Ongoing Operations in Iraq and Afghanistan

For six of the seven contracts we reviewed, actual costs exceeded the initially estimated contract costs, primarily because of added requirements to support ongoing operations in Iraq and Afghanistan. The actual costs for the other contract we reviewed did not exceed the estimated contract costs. The cost increases occurred primarily because as operations in Iraq and Afghanistan expanded, there were increased demands for services already established under the contracts and, in some cases, new requirements were added to the contracts. Other factors that contributed to individual contract cost growth among the contracts we reviewed included short-term contract extensions, the government's inability to provide promised equipment, changes in host country labor laws, and paying for work to be performed multiple times.

Contract Costs Increased for Six Contracts

For six of the contracts we reviewed, the cost of each contract exceeded the originally estimated contract cost, primarily because of increases in contract requirements from ongoing operations in Iraq and Afghanistan. Costs for these six contracts—three of which were extended—increased from an initial estimate of \$783 million to an approximate actual total cost of \$3.8 billion.¹³ In four of these cases, the individual contract's actual cost exceeded the estimated cost by at least 300 percent. For example, the total cost of the base operations support contract exceeded the estimated contract cost by \$122.4 million, or 481 percent. In another example, the estimated cost for the equipment maintenance contract in Qatar was \$52.7 million for a 3-month base period and 10 option years. However, the total cost of the contract as of March 2008—which was during option year 8—was \$471 million or 794 percent more than originally estimated for the entire contract. For the seventh contract, we found that the actual contract costs did not exceed the originally estimated costs. Table 2 below shows how total actual contract costs, including the cost of any extensions, compared to the original cost estimate.

¹³ While the initially estimated cost for each of the contracts included a base year and all option years, the actual contract costs included only those option years that have been exercised. Two of the contracts were ongoing and not all of the option years had been exercised at the time of this report.

Table 2: Comparison of Originally Estimated and Total Actual Contract Costs

Dollars in millions

| Contract reviewed | Initial estimate for the base and all option years | Actual cost for the base and exercised option years | Difference between estimated and actual cost | Additional costs incurred during contract extensions | Total contract cost including extensions |
|--|--|---|--|--|--|
| Linguist Interpretation Services | \$400.0 | \$409.6 | \$9.6 | \$1,784.7 | \$2,194.3 |
| Maintenance and Supply Services for Army Prepositioned Stock—Qatar | 52.7 | 471.0 | 418.2 | N/A | 471.0 |
| Global Maintenance and Supply Services in Kuwait—Task Order 0001 | 218.2 | 778.6 | 560.4 | N/A | 778.6 |
| Base Operations Support Services—Qatar | 25.4 | 131.0 | 105.6 | 16.8 | 147.8 |
| Base Security Support Services—Qatar | 80.3 | 92.7 | 12.0 | 13.1 | 105.8 |
| Stryker Battle Damage Repair | 6.4 | 95.1 | 88.7 | N/A | 95.1 |
| Total | \$783.0 | \$1,978.0 | \$1,194.6 | 1,814.6 | \$3,792.6 |
| Predator Operations and Maintenance | 49.7 | 45.7 | - 4.0 | 3.6 | 49.3 |

Source: GAO analysis of Army, Air Force, and contractor data.

Increased Contract Costs Were Primarily a Result of Added Requirements from Ongoing Operations

Although several factors increased the contract costs, the primary factor was additional requirements associated with ongoing operations in Iraq and Afghanistan. Expanding operations in Iraq and Afghanistan placed an increased demand for services already established under each of the seven contracts we reviewed. In addition, new requirements were added to some of the contracts. The following examples illustrate additional contract requirements due to ongoing operations in Iraq and Afghanistan and their impact on contract costs.

Linguist Services

In April 1999, the Army awarded a contract for linguist translation and interpretation services. According to the Army, the initial requirement was for about 180 linguists worldwide at an estimated cost of \$19 million for 1 base year and 4 option years. Since the award of this contract, the linguist requirement grew and the Army awarded other contracts to provide linguist services. For example, we reviewed an indefinite-delivery/indefinite-quantity contract awarded in September 2004—an

Army Prepositioned Stock—5
Maintenance and Supply
Services

interim 6-month contract with two 3-month options to continue providing linguist services worldwide¹⁴—with an estimated maximum cost of \$400 million. The total actual cost for the first year of services for this contract was about \$409.6 million. Linguist requirements under the interim contract were increased multiple times, which increased contract costs. For example, in February 2007 the linguist requirement supporting operations in Iraq and Afghanistan grew from 8,899 to 10,714 in response to the surge in the number of military forces deployed to these areas of operation. At this same time, the worldwide linguist requirement grew from 9,313 to 11,154. To accommodate the increasing requirements and the need to continue providing the services, the interim contract was modified to increase the maximum costs allowable and to extend the performance period. As of April 2008, the interim contract had been extended five times and the total cost of the contract was \$2.2 billion. At that time, the requirements to support exercises in the United States and operations in Afghanistan and Guantanamo Bay were being provided under new contracts while the requirements to support operations in Iraq were still being provided under the interim contract. A new indefinite-delivery/indefinite-quantity contract for linguist services in Iraq took effect in June 2008 with a maximum cost for all orders under the contract of \$4.6 billion for 5 years.

In August 2000, the Army awarded this contract for maintenance and supply services of the Army Prepositioned Stocks (APS)—5 in Qatar.¹⁵ In addition to performing routine maintenance on the prepositioned stocks, the contractor was required to support contingency operations by receiving, repairing, maintaining, and temporarily storing equipment from other sources until it was needed. The contract award represented the base year requirements of certain contract line items to be performed for 3

¹⁴ When the April 1999 contract expired in 2004, the Army sought offers for a new contract to provide linguist services worldwide. A bid protest was filed alleging that multiple requirements were being bundled in a way that made it impossible for small businesses to compete. Award of the contract was stayed and the bridge contract we reviewed was issued sole source to the existing contractor. According to Army officials, when the requirement was solicited in 2005 it was broken into four contracts to encourage small business competition. Each of the four contracts was awarded; however, performance was stayed due to protests, which resulted in the bridge contract being extended repeatedly to allow for continued service.

¹⁵ The Army prepositions stocks at land sites in Europe, Northeast Asia, Southwest Asia, and aboard ships afloat near Guam and Diego Garcia. APS equipment sets are referred to according to numerical designations of 1 through 5, corresponding to their locations. APS-5 is the equipment prepositioned in Southwest Asia.

months in 2000 at a total contract amount of \$568,166. The contract had 10 single-year options available for full contract performance and the contractor's total estimated cost for the base plus 10 option years was \$52.7 million. At the end of the seventh option year, which was in November 2007, the total cost of the contract was \$428.9 million, or \$376.2 million more than originally estimated for the entire contract. According to the contracting officer, requirements within the scope of the contract increased in support of the global war on terror to include supporting operations in Iraq and Afghanistan, performing operations in Kuwait, repairing equipment, and supporting additional reimbursable customers, such as the 550th Signal Company, Area Support Group-Qatar, and Army Tank Automotive and Armaments Command's tire assembly repair program. For example, in 2002 contractor resources were deployed to Kuwait to meet the requirement for immediate download and urgent maintenance of equipment flowing into Southwest Asia in support of operations in Iraq.¹⁶ Approximately \$195.6 million was funded on the APS-5 contract for operations in Kuwait between 2002 and 2005. In another example, in January 2006 a requirement to produce tire wheel assemblies was added to the contract. The scope of this requirement was to provide a package of ready-to-use, preconfigured tires to reduce the workload at forward maintenance locations. As of March 2008, the total funded for the tire operation was \$6.4 million. Moreover, at various times throughout the life of the contract, requirements were added for the resetting of Army Prepositioned Stocks. For example, in the third, fifth, sixth, and seventh option years, funding placed on the contract for the reset of equipment totaled \$35 million, \$9 million, \$39 million, and \$23 million, respectively.

Global Maintenance and Supply
Services in Kuwait—Task
Order 0001

In October 2004, the Army issued this task order for equipment maintenance and supply services in Kuwait under an umbrella indefinite-delivery/indefinite-quantity contract for Global Maintenance and Supply Services. The contractor was required to provide maintenance, inspect and test equipment, operate a wash rack for agriculture cleaning, and perform various other maintenance functions depending on developing missions. The contractor estimated a total cost for a 10-month base period and four option years of \$218.2 million. At the end of the second option year in September 2007, the total cost of the task order after modifications was about \$581.5 million, \$363.2 million more than the original estimate for the

¹⁶ According to the contracting officer, this modification was issued as an undefinitized contract action and supported by an emergency justification and approval document citing unusual and compelling circumstances.

entire task order. According to the contracting officer, the magnitude of the requirements under the task order increased significantly after the task order was issued. This increase included growth in the quantity of equipment repaired and the number of customers served, new requirements for resetting and issuing Army prepositioned stock and operating tire assembly and repair and HMMWV refurbishment programs. For example, in May 2006, a major HMMWV refurbishment effort valued at approximately \$33 million was added to the task order. According to contracting officials, the task order could be used to expeditiously provide the required HMMWV refurbishment capability. Likewise, in September 2005 a requirement was added to the task order for tire assembly and repair. As of March 2008, the total funding for the tire assembly and repair operation was approximately \$16.6 million. In addition, according to the contracting officer, requirements for the resetting of Army prepositioned stocks were added within the scope of the task order. For example, in option years one and two, funding for the reset of equipment totaled approximately \$54.2 million and \$50.1 million, respectively.

Base Operations Support

In February 2003 the Army awarded this contract to provide a full range of base support activities including public works; logistics; medical; food; and morale, welfare, and recreation services in support of an installation in Qatar. The contractor estimated a total cost of \$25.4 million for the 9-month base period plus 4 option years. The total cost of the contract was approximately \$147.8 million, \$122.4 million more than the original cost estimate. According to contracting officials, this growth in requirements was due to changes in the planned use for the installation and an increase in major tenants such as the United States Central Command Forward Headquarters and Special Operations Command Central. For example, the installation increased its logistics support of a nearby Air Force base and supported the rest and relaxation program for military personnel deployed to Iraq and Afghanistan, providing morale, welfare, and recreation services and quality-of-life support to more than 300 soldiers per week. To meet the increased demands, additional contractor personnel were needed. For example, five Medical Supply Clerks were added to the medical services requirement and four employees were added to meet the change in requirements of the Public Works department. The contractor's estimated total costs for these additional personnel were \$95,706 and \$887,120, respectively. In addition, the services provided under the contract grew as new requirements were added. For example, in September 2004 a new requirement for an installation fire department was added. According to the contractor's cost estimate, the total cost for option years one through four (the requirement was added during option year one) to meet the requirement for fire department services was \$10.7 million.

Base Security Services

In February 2003 the Army awarded this contract for base security services at Camp As Sayliyah, Qatar. The contractor was to intercept, deter, and prevent unauthorized personnel and instruments of damage and destruction from entering the installation. The contractor should also conduct surveillance and counter-surveillance of the installation's perimeter and vicinity from designated observation towers and posts. The contractor estimated a total cost of \$80.3 million for the 9-month base period plus 4 option years. The total cost of the contract was about \$105.8 million, or \$25.6 million more than originally estimated.¹⁷ According to the contracting officer, as was the case for the base operations support contract, changes in the planned use for the installation and an increase in major tenants such as the United States Central Command Forward Headquarters and Special Operations Command Central resulted in increased contract requirements. In some instances, additional personnel were needed to meet the requirements of the contract. For example, four guards and four screeners were added at a cost of \$255,267 for option year one. In another example, in option year two, the required coverage at one guard tower was increased to 24 hours a day. Funding in the amount of \$145,327 was provided to meet this requirement for the remainder of the option year. The contractor's estimated cost for meeting this requirement in the remaining 2 option years was \$690,880. In another example, in option year one a requirement was added for personnel to operate a mobile vehicle and cargo inspection system. This system consisted of a truck-mounted, nonintrusive gamma ray imaging system that x-rays the contents of trucks, containers, cargo, and passenger vehicles entering the base to determine the possible presence of various types of contraband. A total of \$359,685 was provided to meet this requirement for the remainder of the option year.

Stryker Battle Damage Repair Facility—Qatar

In May 2002 the Army awarded a contract that provided total logistics support for the Stryker vehicles fielded to two combat brigade teams.¹⁸ In September 2005 the Army modified the contract to add a requirement for the repair of battle-damaged Stryker vehicles in Qatar.¹⁹ Our review

¹⁷ The contract was extended by 6 months in light of an ongoing bid protest against the follow on contract.

¹⁸ Support provided includes: maintenance, supply support, technical assistance, logistics planning and management, field exercises, deployment support preparation, program plans and controls, business administration, logistics planning, and technical manual feedback.

¹⁹ According to Army officials, battle-damaged vehicles are those that have sustained structural damage and can not be used in the fight due to the vehicles' vulnerability.

focused on the battle damage repair requirements performed in Qatar and the associated modifications. The initial requirement was for the repair of 11 battle-damaged vehicles at a cost of approximately \$6.4 million. As of April 2008, the total cost of the battle damage repair facility in Qatar was approximately \$95.1 million. According to officials at the Army Tank Automotive and Armaments Command, when the logistics support contract was modified to add the Qatar battle damage repair facility requirements, the Army and the contractor jointly developed and negotiated the requirements and cost estimates. As more Stryker vehicles sustained battle damage, additional modifications were added. For example, only a few days after this initial requirement was added to the contract, a modification was issued that increased the requirement by 15 vehicles, bringing the total number of battle-damaged vehicles to be repaired to 26. With this increased requirement, approximately \$4.6 million in funding was added to the contract. According to Army officials, over time the number of vehicles that required repair increased as attacks on United States forces intensified and more Stryker brigades rotated in and out of Iraq and Afghanistan. The battle damage repair requirements are currently stated in terms of the number of vehicles that can be repaired per month. For example, in February 2006 the repair requirement increased from 2 vehicles every 45 days to 4 vehicles per month, and in July 2007 the requirement increased again to 6 vehicles per month.

Predator Maintenance

In February 2005 the Air Force awarded this contract for maintenance support of the Predator unmanned aircraft to support scheduled flying hours for a base period of 1 year with 2 option years. According to program officials, the contractor was required to provide organizational maintenance services such as base support of systems, weapons loading, launching, routine day-to-day flight maintenance, routine inspections, scheduled and unscheduled maintenance, and maintenance of supply and support packages. The estimated base and option year one contract cost was \$49.7 million. At the end of option year one, which included an unanticipated 7-week extension, the total cost of the contract was approximately \$49.3 million.²⁰ While the total cost of the contract, including the cost of the extension, did not exceed the total estimated cost for the base and option year one, contract requirements changed in support of operations in Iraq and Afghanistan and the effect these changes

²⁰ Only 1 option year was exercised because the Air Force sought competition and awarded a new contract in an effort to reduce Predator maintenance costs. The 7-week extension was to allow for transition to the new contract.

had on the cost of the contract varied. For example, according to program officials, the contractor established support operations in Afghanistan in March 2005 and in Iraq three months later. In July 2005, contractor support in Iraq was increased to provide additional Predator surveillance at a cost of \$2.5 million. Also, in June 2006 the contractor support in Afghanistan was moved to Iraq, resulting in a \$2.3 million decrease in contract cost. Other factors also decreased contract costs and as a result, the total cost of the contract was less than initially estimated. For example, contract labor rates—which were negotiated and accepted after the contract was awarded—were lower than the rates used to calculate the estimated contract costs, resulting in a lower contract cost of approximately \$1.8 million.²¹ Additionally, in August 2005 the cost of the contract was decreased by approximately \$567,000 due to a 6-week delay in the start of the contract.

Other Factors That Caused Cost Growth

Other factors that contributed to individual contract cost growth among the contracts we reviewed included (1) short-term contract extensions, (2) the government's inability to provide promised equipment, (3) changes in host country labor laws, and (4) having to pay for work to be performed multiple times because it did not meet required standards. First, we found that in three of the contracts, short-term contract extensions increased costs because the contractor signed short-term leases which were more expensive than longer-term leases. The contractors felt it was too risky to obtain long-term leases for such things as vehicles and housing because there was no guarantee that the contract would be extended again. Each of these three contracts was extended for less than 1 year. In each instance, the extensions were to allow for the continuation of contractor services during protests of newly awarded contracts. For example, in April 2007 the linguist contract requirements were being performed under a 3-month extension due to protests of newly awarded linguist contracts. According to the linguist contractor, the short-term extensions diminished its ability to leverage leasing because a short-term lease commitment is more expensive than a longer, 1-year lease commitment. For example, the

²¹ According to program officials, the contract labor rates for the Predator maintenance contract were determined by a Forward Pricing Rate Agreement (FPRA) that was negotiated between the government and the contractor. A FPRA, as defined in the FAR, is a written agreement negotiated between a contractor and the government to make certain rates available during a specified period for use in pricing contracts or contract modifications. Such rates represent reasonable projections of specific costs that are not easily estimated for, identified with, or generated by a specific contract, contract end item, or task.

monthly cost for one contractor to lease trucks under a 6-month lease was \$2,437, whereas the monthly cost under a 1-year lease was \$1,700—a 30 percent savings. According to the contractor, short-term lease commitments also limit the contractor's ability to shop around for better prices because most vendors want a longer commitment. Additionally, short-term extensions drain contractor resources and increase overhead costs because the contractor has to prepare cost proposals, review funding, and perform other administrative tasks every 90 or 120 days. While the contractors could enter into leases for a period longer than the specified contract period of performance, they would assume the risk for the cost of the excess months. In addition, in October 2007 the base operations and security services contract requirements were being performed under 6-month contract extensions. According to both the base operations contractor and the security services contractor, it was difficult to find housing that was available for a 6-month lease in Qatar due to the booming economy, and any lease term for fewer than 12-months was costly. For example, according to the security services contractor, the same 12-month housing lease that cost about \$1,650 in 2007 cost about \$4,100 in 2008. The officials added that, when available, a 6-month lease for the same housing averaged around \$4,700 to \$5,000.

Second, for the linguist contract, additional costs were incurred when the government was unable to provide the equipment or services, which were to be government- furnished pursuant to the contract. The contract stated that contractor personnel providing support to the military in contingency operations may be required to wear protective equipment as determined by the supported commander. When required by the commander, the government will provide to the contractor all military-unique individual equipment. According to contracting officials, due to the large deployments of soldiers requiring protective equipment, there was an insufficient supply of equipment remaining for contractors. Contracting officials told us that when the government does not supply the equipment as provided for under the contract, the contractor is authorized to procure and be reimbursed for the cost of the equipment and the associated general and administrative expenses. When the contractor is paid for the equipment it becomes government property. According to the contracting officer's representative, the contractor was able to purchase the equipment at military surplus stores at a cost to the government of approximately \$600,000. In addition, contracting officials for this same contract told us that the government was to provide transportation for the contract manager; however, the government did not provide this transportation. As a result, the contractor leased a vehicle to provide this

transportation and the government reimbursed the contractor and paid for the associated overhead expenses.²²

Third, changes in the host country labor law resulted in additional security services contract costs. According to the contractor, a change in Qatar's labor law directed that (1) employees could not work more than 10 hours in 1 day, including overtime, and (2) employees be given at least a 1-hour break after working for 5 hours. As a result, additional employees were required to provide 24-hour security coverage. The cost of providing this additional manpower in option year two was approximately \$752,000. The contractor's estimated cost for meeting this requirement in the remaining years (option years three and four) was approximately \$2.5 million. The contractor also told us that a second change in Qatar's labor law required workers to be paid for 1 day off a week. To comply with this change, employees were retroactively paid for the weekly day off from the effective date of the law change until their contract ended. The Army added \$1.3 million in funding to the contract to assist with the retroactive pay for the paid day off.

Fourth, according to contracting officials, under the two cost-reimbursable equipment maintenance contracts we reviewed, the government must continue to pay for additional work performed on equipment rejected for failure to meet the required maintenance standard. When equipment was presented to the government and did not pass quality assurance inspection, it was returned to the contractor for additional maintenance until it met the required standard. Contracting officials explained that under the cost-plus-fixed-fee maintenance provisions of the contracts, the contractor was reimbursed for all maintenance labor hours incurred, including labor hours associated with maintenance performed after the equipment was rejected because it did not meet specified maintenance standards. This resulted in additional costs to the government. As we reported in January 2008, our analysis of Army data for a task order under one of these contracts in Kuwait found that since May 2005, the contractor worked a total of about 188,000 hours

²² In commenting on a draft of this report, DOD stated that it was less costly for the contractor to provide the protective equipment than for the government. According to DOD, the actual equipment cost was \$785,399.91 (excluding shipping), whereas Army-issued equipment would have cost \$1,296,116.64. Related to the transportation, DOD said that actual transportation cost was approximately \$1.84 million whereas it would have cost between \$1.43 million and \$1.76 million for HMMWVs to provide to the contractor. We believe better communication between the contracting officer and the customer using the service would have identified the best means to provide the equipment and transportation.

to repair equipment after the first failed government inspection, at an approximate cost to the government of \$4.2 million.²³ We were unable to calculate the total cost of the rework performed under the second equipment maintenance contract because, according to officials, information entered into the maintenance database that tracks equipment status and inspection results does not distinguish between the contractor's internal quality control inspections and government inspections prior to acceptance.

DOD's Oversight of Some Contracts Has Been Inadequate

DOD's oversight of some of the contracts we reviewed has been inadequate because of a shortage of qualified oversight and contract administration personnel and because it did not maintain some contract files in accordance with applicable policy and guidance. We have previously reported that inadequate numbers of trained contract management and oversight staff have led to contracting challenges. We found that for five of the seven contracts we reviewed, DOD did not have adequate numbers of qualified personnel at deployed locations to effectively manage and oversee the contracts. Additionally, we found that for four of the contracts we reviewed, the contracting offices either did not maintain complete contract files documenting contract administration and oversight actions taken or did not follow quality assurance guidance. For the other two contracts we reviewed, authorized oversight positions were filled with personnel to properly oversee the contracts.

Some Contract Management and Oversight Teams Were Inadequately Staffed

Having the right people with the right skills to oversee contractor performance is critical to ensuring that DOD receives the best value for the billions of dollars spent each year on contractor-provided services supporting forces deployed in southwest Asia and elsewhere. However, inadequate numbers of personnel to oversee and manage contracts is a long-standing problem that continues to hinder DOD's management and oversight of contractors in deployed locations. In 2004, we reported that DOD did not always have sufficient contract oversight personnel in place to manage and oversee its logistics support contracts such as LOGCAP²⁴ and recommended that DOD develop teams of subject matter experts to

²³ GAO-08-316R.

²⁴ Established in 1985, the Army's LOGCAP program preplans for the use of global corporate resources to support worldwide contingency operations. In the event that U.S. forces deploy, contractor support is then available to a military commander as an option.

make periodic visits to deployed locations to judge, among other things, if its logistics support contracts were being used efficiently.²⁵ DOD concurred with—but did not implement—this recommendation. In addition, in 2005 we reported in our High-Risk Series that inadequate staffing contributed to contract management challenges in Iraq.²⁶ In 2006, we reported that oversight personnel told us that DOD does not have adequate personnel at deployed locations to effectively oversee and manage contractors.²⁷ DOD concurred with our assessment and noted that they were congressionally directed to undertake a review of the health of the acquisition work forces, including oversight personnel, and assess the department’s ability to meet the oversight mission. Currently, DOD has completed a competency analysis of its work force but has not determined what number of oversight personnel will be needed to provide adequate oversight for contingency contracting. Our review of the staff authorized to provide contract oversight and management revealed similar vacancies in some critical oversight and administration positions for five of the seven contracts, as illustrated by the following examples.

- The APS-5 contract did not have an administrative contracting officer for almost a year. Oversight of contracts ultimately rests with the contracting officer, who has the responsibility for ensuring that contractors meet the requirements set forth in the contract. However, most contracting officers are not located at the deployed location. As a result, contracting officers often appoint administrative contracting officers to provide day-to-day oversight and management of the contractor at the deployed location. The administrative contracting officer is a certified contracting officer with specialized training and experience. Administrative contracting officers may be responsible for many duties including ensuring contractor compliance with contract quality assurance requirements, approving the contractor’s use of subcontractors, reviewing the contractor’s management systems, reviewing and monitoring the contractor’s purchasing system, and ensuring that government personnel involved with contract management have the proper training and experience. According to the contracting officer, while the administrative contracting officer’s position was vacant, she acted as the administrative contracting officer;

²⁵ GAO, *Military Operations: DOD’s Extensive Use of Logistics Support Contracts Requires Strengthened Oversight*, [GAO-04-854](#) (Washington, D.C.: July 19, 2004).

²⁶ GAO, *High Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: January 2005).

²⁷ GAO, *Military Operations: High-Level DOD Action Needed to Address Long-standing Problems with Management and Oversight of Contractors Supporting Deployed Forces*, [GAO-07-145](#) (Washington, D.C.: December 18, 2006).

however, she was located in the United States and the place of performance for this contract was in Qatar.

- The APS-5 contract also lacked a property administrator for more than a year. According to a DOD manual, the responsibilities of the property administrator include administering the contract clauses related to government property in the possession of the contractor, developing and applying a property systems analysis program to assess the effectiveness of contractor government property management systems, and evaluating the contractor's property management system to ensure that it does not create an unacceptable risk of loss, damage, or destruction of property.²⁸ While some property administrator duties are often delegated to the administrative contracting officer, this contracting office was also without an administrative contracting office for several months. As such, important property administration duties were not being performed including the proper accounting for government-owned contractor-acquired equipment.
- As of April 2008, the contract administration office responsible for administering the base operations and support and the base security contracts in Qatar only had 12 of its 18 authorized positions. The 6 vacant positions included a performance evaluation specialist, 3 contracting specialists, 1 cost analyst, and 1 procurement analyst. Four of the positions had been vacant for 7 months or more, while 2 had been vacant for 4 and 6 months, despite the fact that the Army designated both as key positions. According to position descriptions provided by the Army, the performance evaluation specialist is a technical quality expert who advises the commander on quality issues. Moreover, the performance evaluation specialist is responsible for the Army's quality assurance program for the two contracts in Qatar. This includes developing a quality assurance plan, monitoring contractor performance, training junior quality assurance personnel, analyzing quality data for trends, and providing input on the contractor's performance for the award fee board. This position requires a certified quality assurance professional. While some of these duties were performed by the administrative contracting officer, other duties need specialized skills that administrative contracting officers generally do not have. Contract specialists perform a wide variety of pre- and post-award tasks encompassing complex acquisition planning, contract type selection, contract formation and execution, cost of price analysis, contract negotiation, and contract administration including reviewing monthly contractor invoices. According to the contracting officer's representative, he was responsible for providing the technical assessment of the

²⁸ DOD Manual for the Performance of Contract Property Administration, DOD 4161.2-M, December 1991.

contractor's performance and reviewing contractor invoices, a responsibility for which he said that he was not trained. He also said that the invoices required closer scrutiny than he was able to give them and he often did not know if the invoices included valid expenses or not. In addition, the contracting officer's representative had oversight responsibilities for five additional contracts and his primary assignment as the base's Provost Marshal did not always allow him time to complete his contract oversight responsibilities. The procurement analyst, among other things, is responsible for developing cost/pricing data, proposals, and counter-proposals for use in negotiations; analyzing contractor proposals to determine reasonableness; determining appropriateness and reasonableness of proposed labor and overhead rates; and developing data for use in pricing trend analyses. What made these vacancies even more critical is that during this time the contracting office awarded two, 1-year contracts to continue providing the base security and base operations services. According to the contracting officer, it was difficult to find qualified candidates to fill some of the vacancies, and in the fall of 2007 the Army rejected a number of applicants because they did not have the right skills.

- The contracting officer for the Global Maintenance and Supply Services in Kuwait—Task Order and the APS-5 contract said that her office was understaffed, which made it difficult to keep up with some contract administrative requirements. For example, she said that more staff would allow her office to properly handle the deobligation of funds against contracts.

In January 2008, we reported that (1) the contract management oversight team was inadequately staffed to effectively oversee the Global Maintenance and Supply Services in Kuwait—Task Order 0001, (2) the 401st Army Field Support battalion was concerned about its ability to administer cost-plus-award-fee provisions, and (3) the battalion was not meeting Army Quality Program requirements due in part to lack of oversight and contract management staff.²⁹ Specifically, we reported that there were not enough trained oversight personnel to effectively oversee and manage the task order. We also reported that as of April 2007 four oversight personnel positions were vacant, including two military quality assurance inspectors and two civilian positions—a quality assurance specialist and a property administrator. Due to the vacant property administrator position, some proper accounting of government-owned equipment was not performed. The Army agreed with our

²⁹ [GAO-08-316R](#).

recommendation that it take steps to fill the vacant oversight positions and Army Sustainment Command officials told us that steps were being taken to fill the vacant oversight positions with qualified personnel. According to the officials, 16 military personnel were assigned to the battalion to help provide contract oversight in maintenance, supply, transportation, and operations—8 of which would be assigned to maintenance. In addition, the officials stated that the quality assurance specialist and property administrator positions had both been announced numerous times and several offers had been declined. The property administrator position was filled in March 2008; however, as of June 2008 the quality assurance specialist position was still vacant.

For the linguist contract, officials responsible for the contract said (1) there were not enough contracting officer's technical representatives to effectively oversee the contract and (2) the representatives spent more time ensuring the contractor met its responsibilities concerning employees' pay, uniforms, and other things than they did performing the full range of contract oversight actions. According to contracting officials, in February 2007 there were 7 contracting officer's technical representatives providing oversight for about 8,300 linguists in 120 locations across Iraq and Afghanistan. In one case, a single oversight person was responsible for linguists stationed at more than 40 different locations spread throughout the theater of operations. The officials also said that one theater commander restricted travel within the area of operations during some time of the contract. This travel restriction limited the ability of oversight personnel to perform adequate contract oversight. In addition, oversight officials stated that when they did have the opportunity to visit a forward operating location, they often spent their time focusing on contractor personnel issues such as ensuring that the contractor paid the foreign national linguists on time and as agreed to in their contracts. Oversight officials also cited the following difficulties in performing contract oversight: (1) determining what support the government is supposed to provide to the contractor, (2) getting deployed units to provide support such as subsistence and transportation to the assigned linguists and (3) inexperience of unit commanders in working with contractors. In March 2008, after awarding four new contracts for linguist services, the Army increased the number of alternate contracting officer's representatives in Iraq and Afghanistan from 7 to 14 in an effort to improve oversight.

For the other two contracts we reviewed, authorized oversight positions were filled. For the Stryker contract, the Program Manager-Stryker Brigade Combat Team provided overall contract management and the

Defense Contract Management Agency provided contract administration and oversight services for the battle damage repair effort in Qatar. The Defense Contract Management Agency had a designated administrative contracting officer in Kuwait, who also served as the quality assurance evaluator. The quality assurance evaluator traveled to Qatar and performed final inspection of repaired vehicles prior to accepting them for the government. He also performed periodic in-process inspections during his visits to Qatar, as his schedule allowed.

Oversight for the Predator contract was performed by the quality assurance group within the Air Combat Command Program Management Squadron. According to Air Force officials, the Predator quality assurance team consisted of a superintendent quality assurance evaluator and 16 additional quality assurance evaluators. One full-time evaluator was located in Iraq while the others were located at Creech Air Force Base, Nevada. The quality assurance evaluators worked full time to ensure that the contractor's maintenance of the Predator met contract specifications. According to Air Force officials, based on a risk analysis, one evaluator was sufficient to provide oversight in Iraq. The quality assurance evaluators planned their oversight inspections using a monthly contract surveillance audit plan provided by the quality assurance department. At the end of each month, the evaluators in Iraq and at Creech prepared a report that described the results of site audits, technical inspections, any deficiencies identified, the status of corrective action requests, other action items, and an overall summary of the business relationship with the contractor.

Guidance for Contract File Maintenance and Quality Assurance Not Always Followed

We found that contracting offices and oversight activities did not always follow policy and guidance for maintaining contract files or established quality assurance principles. According to the FAR, unless otherwise specified, the contract administration office shall maintain suitable records reflecting the nature of quality assurance actions as part of the performance records of the contract. The regulation states that organization of the contract files must be sufficient to ensure the files are readily accessible to principal users and, if needed, a locator system should be established to ensure the ability to locate promptly any contract files. In addition, a DFARS policy, guidance and instruction states that the basis for all award fee determinations should be documented in the contract file. However, for three of the contracts we reviewed—including two award fee contracts—the contracting officers could not provide documents supporting contract administration and oversight actions taken. Specifically, for the base operations support, security services, and

APS-5 contracts, we asked the contracting offices to provide documentation from the contract files related to past oversight actions, including any records of corrective actions. Contracting officials said that they could not identify records of oversight actions taken because corrective action requests and other such documentation of contractor performance either were not maintained in the contract files or were maintained in such a manner that the current contracting officer could not locate them and was unaware of their existence. As a result, incoming contracting officers and contract administration personnel said they were unable to identify whether there were recurring contractor performance issues. Some of the contracting office personnel with whom we spoke stated that previous contracting office personnel had not properly documented and maintained all contract actions; however, they could not explain why, given that this occurred prior to their assignments. For the base operations support and security services contracts, we also asked for documents related to the Army's decision concerning award fees to the contractors; however, the contracting office personnel were unsure whether or how quality assurance evaluations were previously analyzed and used to assess the contractor's performance for purposes of determining the award fee it received.

According to DOD's guidebook for performance-based service acquisitions, an assessment of contractor performance should be documented, whether acceptable or unacceptable, as it is conducted and this official record may be considered past performance information. As we reported in January 2008, the Army did not always document unacceptable performance for the Global Maintenance and Supply Services in Kuwait—Task Order 0001. We reported that the Army did not always document deficiencies identified during quality assurance inspections despite the requirement to do so in the battalion's quality and contract management procedures. Instead, quality assurance inspectors allowed the contractor to fix some deficiencies without documenting them in an attempt to prevent a delay in getting the equipment up to standard to pass inspection. We found a similar situation with the APS-5 contract for equipment maintenance in Qatar.

We also found that the regulation governing the Army quality program stated that management of a comprehensive quality program requires subject matter practitioners with quality expertise. However, according to oversight officials, assigned contract oversight personnel for the linguist contract were unable to judge the performance of the contractor employees because they were generally unable to speak the languages of the contractor employees they were responsible for overseeing. The

officials stated that this prevented the government from assessing linguist quality and identifying ways to improve contractor performance. We asked how the Army could ensure the linguists were properly translating and interpreting information if the quality assurance personnel could not speak the language in question. Agency officials responded that they thoroughly reviewed and validated the contractor's methodology for determining if the linguists spoke the language and met the proficiency standards. They further stated that if they had people available who could speak the different languages needed, they would not need contract linguists.

Similar to our findings, the Army Inspector General reported in October 2007 that shortages of contracting officers, quality assurance personnel, and technically proficient contracting officer's representatives were noticeable at all levels. Without adequate levels of qualified oversight personnel, complete and organized contract files, and consistent implementation of quality assurance principles, DOD's ability to perform the various tasks needed to monitor contractor performance may be impaired. Additionally, until DOD is able to obtain reasonable assurance that contractors are meeting their contract requirements efficiently and effectively, it will be unable to make fully informed decisions related to award fees as well as additional contract awards. Our selection of contracts did not allow us to project our findings across the universe of DOD contracts for services that support contingency operations. However, given that we identified inadequate oversight and administration staff levels for five of the seven contracts, and in four of the contracts we identified a failure to follow guidance for contract file maintenance or quality assurance principles, we believe the potential for these weaknesses exists in other DOD contracts. As we previously stated, some of the contracts we reviewed have ended; however, DOD continues to acquire those services through new contracts that are managed by the same contract oversight and administration offices and processes. As such, it is likely the weaknesses we identified continue to exist in the new contracts. While we could not determine the cost effect of inadequate oversight, as we have previously reported inadequate oversight may have some negative cost implications. Unless DOD can determine that inadequate oversight and insufficient staff are not a problem on other contracts for services to support contingency operations, the potential for waste exists DOD-wide.

DOD Used Contractors Because Military Personnel and DOD Civilians Were Not Available

DOD uses contractors to support contingency operations for several reasons, including the need to compensate for a decrease in the size of the force and a lack of expertise within the military services. For the seven contracts we reviewed, DOD decided to use a contractor rather than DOD personnel because sufficient numbers of military personnel and DOD civilians were not available or the available personnel did not have the required skills. For five of the seven contracts, DOD lacked sufficient personnel to meet increased requirements for services to support operations in Iraq and Afghanistan. For example, one contract we reviewed was for organizational-level maintenance of the Predator unmanned aerial system. In fiscal year 2002, Congress provided the Air Force \$1.6 billion to acquire 60 additional unmanned Predator aircraft; however, according to Air Force documents, it did not have the additional 1,409 personnel needed to maintain these new assets. As a result, the Air Force decided to use contractors to support the additional aircraft. In another example, the contracting officer for a contract that provides maintenance of prepositioned Army equipment and supply services in Qatar told us that these services are contracted out because there were insufficient military personnel to maintain the equipment. According to the official, while maintenance personnel maintain their unit's equipment, they are not available to maintain all prepositioned equipment in a location such as Qatar. We also reviewed a similar equipment maintenance and supply services contract in Kuwait. According to the contracting officer, who is the same for both the Qatar and Kuwait contracts, contractors are used to provide the services in Kuwait because no military personnel were available to meet the requirements during the required time frame and the maintenance effort had previously only been performed by contractors. Additionally, contracting office officials for the security services and base operations support contracts in Qatar told us that contractors provide these services because there are not enough military personnel available to perform the work.

For the two other contracts we reviewed, DOD did not have the personnel with specific skill sets to meet the missions. For example, regarding the contract that provides linguist interpretation and translation services for deployed units, Army officials told us that, the Army does not have enough military personnel who can speak the various required languages. In February 2007, the contract requirement was for over 11,000 linguists in over 40 different languages and dialects. According to Army officials, years ago the military did not anticipate such a large requirement for Arabic speakers. As a result, it phased out many interpreter military occupational specialties, thereby creating the shortfall. The officials said the requirements for language skills change over time and it is very difficult to

forecast what language skills and what number of personnel with those skills will be needed in the future. Similarly, our review of a contract that provided total logistics support for the Stryker program found that these services were contracted out because DOD did not have people with the specific skills to perform this type of repair. According to Army officials, the development, production, and fielding of the Stryker vehicles were done concurrently and as a result, total logistics support had to be contracted out because at that time no organic capability had been established within the military to maintain the vehicles. After the contract was in place, the Army identified a need for the rapid repair of battle-damaged Stryker vehicles in order to restore combat capability. This requirement was added to the existing logistics support contract. According to Army officials, the decision was made to contract for the repair of battle-damaged Army Stryker vehicles because DOD did not have people with the specific skills to perform this type of repair. Moreover, the officials also stated that the military will never have an organic military capability to repair battle-damaged vehicles as any extensive structural damage typically requires specific welding experience.

In May 2007 we reported that DOD and service officials attributed the increased use of contractors for support services to several factors, including (1) increased operations and maintenance requirements from the global war on terror and other contingencies, which DOD has met without an increase in active duty and civilian personnel; (2) federal government policy, which is to rely on the private sector for needed commercial services that are not inherently governmental in nature; and (3) DOD initiatives, such as its competitive sourcing³⁰ and utility privatization programs. We also reported that officials stated the increased use of contractor support to help meet expanded mission support work has certain benefits.³¹ For example, they said

- the use of contractors allows uniformed personnel to be available for combat missions,
- obtaining contractor support in some instances can be faster than hiring government workers,

³⁰ Competitive sourcing, otherwise known as the A-76 process, is when the military services and other defense components conduct public/private competition for a commercial activity currently performed by government personnel to determine whether it would be cost effective to contract with the private sector to perform that activity.

³¹ [GAO-07-631](#).

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- it is generally easier to terminate or not renew a contract than to lay off government employees when operations return to normal, and
 - contractors can provide support capabilities that are in short supply in the active and reserve components, thus reducing the frequency and duration of deployments for certain uniformed personnel.

Furthermore, according to other GAO, DOD, and RAND reports, the department also uses contractors because of its need to deploy weapon systems before they are fully developed, and the increasingly complex nature of DOD weapon systems. For example, in a 2005 report that examined the Army's use of contractors on the battlefield, RAND reported that DOD's decision to field equipment still in development delays the date at which maintenance work can be performed in-house and extends the time the Army needs contractor personnel because it has not had the time to develop any internal capability. Additionally, in October 2007 DOD reported that the increasing technical complexity of DOD weapons systems and equipment requires a level of specialized technical expertise of limited scope, which DOD does not believe can be cost-effectively serviced and supported by a military force capability, resulting in the use of contractors.

Conclusions

While contractors provide valuable support to contingency operations, we have frequently reported that long-standing DOD contract management and oversight problems, including DOD's failure to follow contract management and oversight policy and guidance, increase the opportunity for waste and make it more difficult for DOD to ensure that contractors are meeting contract requirements efficiently, effectively, and at a reasonable price. Lack of effective oversight over the large number of contracts and contractors raises the potential for mismanagement of millions of dollars of these obligations. As we previously stated, some of the contracts we reviewed have ended, however, DOD continues to acquire these services through new contracts that are managed by the same contract oversight and administration offices and processes. As such, it is likely the weaknesses we identified continue to exist in the new contracts. Our selection of contracts did not allow us to project our findings across the universe of DOD contracts for services that support contingency operations. However, given that we identified inadequate oversight and administration staff levels for five of the seven contracts, and in four of the contracts we identified a failure to follow guidance for contract file maintenance or quality assurance principles, we believe the potential for these weaknesses exists in other DOD contracts supporting contingency operations.

Recommendations for Executive Action

To ensure that DOD is able to exercise effective oversight over the contracts we reviewed, we recommend that the Secretary of Defense direct the Secretary of the Army to take the following three actions:

- develop a plan to adequately staff oversight positions with qualified personnel,
- take steps to determine why guidance for maintaining contract files is not consistently being followed and implement a corrective action plan, and
- ensure that quality assurance principles are consistently implemented.

We also recommend that the Secretary of Defense direct each of the service secretaries to conduct a review of the contract administration functions that support contingency operations contracts to determine the prevalence of inadequate contract oversight and administration staffing levels and the extent to which guidance for maintaining contract files and quality assurance principles are not being consistently followed and take corrective actions as necessary.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD concurred with each of our recommendations and stated that the Army was well aware of the problems we identified. In response to our recommendation that the Army develop a plan to adequately staff oversight positions for the contracts we reviewed with qualified personnel, DOD stated that the Army established the Gansler Commission to review lessons learned in recent operations and provide recommendations to improve effectiveness, efficiency, and transparency for future military operations. The Gansler Commission recommended that the Army contracting workforce be increased by 1,400 personnel. DOD stated that the Army established three new contracting commands that should enhance the focus on contractor oversight and that concept plans to support an increase in contract personnel were being staffed. While the Army's actions should be viewed as positive steps, increasing the workforce and establishing three new contracting commands will not address, in the near term, the Army's inadequate oversight personnel on the specific contracts we reviewed. We continue to believe that the Army should ensure that currently authorized oversight positions are filled with qualified personnel. If the concept plans include provisions for filling currently vacant authorized oversight positions with qualified personnel, then the Army's actions should address our recommendation. In response to our recommendation that the Army take steps to determine why guidance for maintaining contract files is not consistently being followed and implement a corrective action plan, DOD stated that contract files are reviewed for compliance and completeness

during all Army Procurement Management Reviews of Army contracting activities and that the Army found that a checklist should be developed. We believe that developing a checklist may be beneficial for identifying information that should be in contract files. However, this may not address the issue of why existing guidance for contract file maintenance, which already identifies what should be included in the files, is not being followed. In response to our recommendation that the Army ensure that quality assurance principles are consistently implemented, DOD stated that it has stressed the requirement to prepare quality assurance surveillance plans for all service contracts greater than \$2,500 to ensure systematic quality assurance methods are used. While having a quality assurance surveillance plan can be beneficial to consistent implementation of quality assurance principles, most of the contracts we reviewed had a quality assurance surveillance plan, yet quality assurance principles were not consistently implemented. For example, the Global Maintenance and Supply Services Contract in Kuwait had a quality assurance surveillance plan that required documentation of contractor performance. However, as we reported, the Army did not always document unacceptable contractor performance. Because of our concern that the problems we identified may exist in other contingency contracts, we recommended that the service secretaries conduct a review of contract administration functions that support contingency operations contracts to determine the prevalence of inadequate oversight and administration staffing levels and the extent to which guidance for maintaining contract files and quality assurance principles is not being consistently followed and take corrective actions as necessary. In response, DOD stated that it has taken several initiatives to position itself for future operations, including increasing staffing dedicated specifically to contracting in expeditionary operations. While these actions may enhance future contracting for expeditionary operations, they will not address potential problems with active contracts. Additionally, authorized oversight positions in deployed locations need to be filled with qualified personnel to provide contractor oversight. We believe existing active contracts still need to be reviewed to address the problems we identified. DOD's comments are reprinted in appendix II.

We are sending copies of this report to the appropriate congressional committees and the Secretary of Defense. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

If you or your staff has any questions regarding this report, please contact me at (202) 512-8365 or solisw@gao.gov. Key contributors to the report are listed in appendix III.

A handwritten signature in black ink, appearing to read 'W. Solis', with a long horizontal flourish extending to the right.

William M. Solis, Director
Defense Capabilities and Management

List of Committees

The Honorable Daniel K. Inouye
Chairman

The Honorable Thad Cochran
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable John P. Murtha
Chairman

The Honorable C. W. Bill Young
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

The Honorable Carl Levin
Chairman

The Honorable John McCain
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Ike Skelton
Chairman

The Honorable Duncan L. Hunter
Ranking Member
Committee on Armed Services
House of Representatives

Appendix I: Scope and Methodology

To conduct our work, we selected and conducted a case study review of a nonprobability sample of 7 Department of Defense (DOD) contracts for services that support deployed forces. Since a complete list of contracts was not available, we developed a list from which to select our case studies in two steps. First, we developed criteria for such a list of contracts (including task orders) awarded by DOD and its components that included the following: the contract supports deployed forces; Operations and Maintenance (O&M) funds are used to pay for the contract services; the principal place of performance is within the United States Central Command's Area of Operation (i.e., 50 percent or greater); the contract is to maintain a weapons system(s) and/or provide support, including base support, but not for reconstruction and commodities; the award date of the contract is after October 2002; the contract was still in effect as of December 12, 2006; and the contractor is U.S. based. We provided this list of criteria to DOD which provided us with a list of 34 contracts, some of which did not meet the criteria. Second, we generated a short list of 8 contracts to supplement those provided by DOD based on our research and experience from prior work. We selected our nonprobability sample of 7 contracts from these two lists combined. The selected contracts provided various services such as base operations support, security, vehicle maintenance, and linguist services for case study review. Factors that influenced the case study selection included the extent of work we may have done on a contract during previous GAO reviews, type of contract service provided, location where the contractor's work was performed, and contract dollar amount. Our selection of contracts does not allow us to project our findings across the universe of DOD contracts for services that support deployed forces.

To determine why selected contracts supporting deployed forces experienced cost growth, we reviewed available contract requirements and funding documents and interviewed contracting office officials. When available, we compared the initially estimated annual contract costs with the actual annual contract costs to determine if the annual contract costs were different than initially anticipated. If there was a difference between annual contract costs and the initially estimated contract costs, we reviewed contract modification documents, contractor proposals, and other contract documents, and spoke with contracting office and contractor representatives to determine what led to the change in cost. We also spoke with representatives of the contractor to obtain their views related to changing contract requirements and the impact the changes had on contract costs.

To determine the extent to which DOD provided oversight of contracts that support contingency operations, we reviewed a variety of quality assurance and contract management regulations and guidance, including the Federal Acquisition Regulation, the Defense Federal Acquisition Regulation Supplement, the Army Quality Program regulation, and DOD's Guidebook for Performance-Based Services Acquisition in the Department of Defense. We met with contracting and quality assurance officials, and reviewed oversight and surveillance plans and inspection records. In addition, we spoke with representatives of the contractor and reviewed data provided by the contractor. We also observed physical inspections of the services provided for two contracts and toured operation areas for two other contracts. We spoke with oversight and contracting office officials to discuss the extent to which the contract management and oversight teams were adequately staffed to perform administration and oversight activities. While guidance was not available on the appropriate number of personnel needed to monitor contractors in a deployed location, we relied on the judgments and views of contracting office and contract oversight personnel as to the adequacy of staffing.

To determine why the department uses contractors to support contingency operations, we interviewed contracting office officials and reviewed available documentation related to the decision to use contractors instead of military or DOD civilian personnel for the contracts. We also reviewed prior GAO work and DOD studies to determine if the basis of the decisions for the seven contracts we reviewed were consistent those used to make past decisions to contract for services across DOD. We did not, however, compare the cost of contractors versus military personnel or make policy judgments as to whether the use of contractors is desirable.

We conducted this performance audit from November 2006 through August 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Comments from the Department of Defense



DEPUTY UNDER SECRETARY OF DEFENSE FOR
LOGISTICS AND MATERIEL READINESS
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

SEP 23 2008

Mr. William M. Solis
Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Solis:

This is the Department of Defense (DoD) technical response to the GAO draft report, "MILITARY OPERATIONS: DoD Needs to Address Contract Oversight and Quality Assurance Issues for Contracts Used to Support Contingency Operations," dated August 25, 2008 (GAO Code 350951).

The Department concurs with these recommendations. Detailed comments on the report are enclosed. Technical comments were submitted under separate cover.

Sincerely,

A handwritten signature in black ink, appearing to read "Jack Bell", is written over a printed name tag.

Jack Bell

Enclosure:
As stated



**GAO DRAFT REPORT – DATED AUGUST 25, 2008
GAO CODE 350951/GAO-08-1087**

**“MILITARY OPERATIONS: DoD Needs to Address Contract Oversight and Quality
Assurance Issues for Contracts Used to Support Contingency Operations”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS**

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense direct the Secretary of the Army to develop a plan to adequately staff oversight positions with qualified personnel.

DOD RESPONSE: Concur.

The Army recognizes the importance of oversight of contractor performance and is aggressively moving forward to resolve these issues in a timely manner.

The Secretary of the Army established an independent Commission on Army Acquisition and Program Management in Expeditionary Operations (Gansler Commission), to review the lessons learned in recent operations and provide forward-looking recommendations to ensure that future military operations achieve greater effectiveness, efficiency, and transparency. The Commission assessed processes (including internal controls), personnel, organization, training, policy and regulation, as well as explored legislative solutions. In response to the Gansler Commission findings and recommendations, dated October 31, 2007, the Army established the U.S. Army Contracting Command (ACC), the U.S. Army Expeditionary Contracting Command (ECC), and the U.S. Army Installation Contracting Command (ICC), under the command and control of the U.S. Army Materiel Command (AMC). This is expected to enhance the focus on contractor oversight.

One of the recommendations of the Gansler Commission is to increase the number of military (by 400) and civilian (by 1000) in the Army contracting workforce, which involves about a 25 percent increase. The Commission made this recommendation after considering both the Air Force and Marine Corps model for determining the number of military. Ultimately, the Commission recommended that a ratio of 70/30 percent (civilian to military personnel) is appropriate for the total Army Acquisition Force, and a ratio of 80/20 for the Contracting Corps. Concept plans to support the increase in additional personnel are being staffed.

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense direct the Secretary of the Army to take steps to determine why guidance for maintaining contract files is not consistently being followed and implement a corrective action plan.

DOD RESPONSE: Concur.

The Army is well aware of the problems associated with maintaining contract files and Contracting Officer Representative (COR) files in an appropriate manner. The Army is aggressively moving ahead to resolve these issues in a timely manner.

Contract files are reviewed for compliance and completeness during all Army Procurement Management Reviews (PMRs) of Army contracting activities. The Army Associate Deputy Assistant Secretary (ADAS)(Procurement) Directorate manages the PMR program and based on systemic trend, found that a checklist should be developed.

RECOMMENDATION 3: The GAO recommends that the Secretary of Defense direct the Secretary of the Army to ensure that quality assurance principles are consistently implemented.

DOD RESPONSE: Concur.

The Army is well aware of the problems associated with ensuring that quality assurance principles are consistently implemented and documented in the contract files. The Army is moving ahead aggressively to resolve these issues in a timely manner.

Deputy Assistant Secretary of the Army (Procurement and Policy) memorandum, dated February 9, 2007, "Contract Administration and Surveillance for Service Contracts," stressed the requirement to prepare Quality Assurance Surveillance Plans (QASPs) for all service contract actions greater than \$2,500 to ensure systematic quality assurance methods are used during contract administration. Further, the Army requires that the level of surveillance described in the plan be commensurate with the dollar value, risk, complexity and criticality of the acquisition.

RECOMMENDATION 4: The GAO recommends that the Secretary of Defense direct each of the Service Secretaries to conduct a review of the contract administration functions that support contingency operations contracts to determine the prevalence of inadequate contract oversight and administration staffing levels and the extent to which guidance for maintaining contract files and quality assurance principles are not being consistently followed and take corrective actions as necessary.

DOD RESPONSE: Concur.

The DoD is cognizant of the problems associated with expeditionary contracting, contract administration and the requirement to adequately staff oversight positions with qualified personnel and is aggressively moving ahead to resolve these issues in a timely manner.

To improve contingency contracting, the Department undertook several initiatives to position itself for future operations. In May 2007, the Department increased the staffing within the Defense Procurement, Acquisition Policy and Strategic Sourcing Directorate (DPAP) that is dedicated specifically to contracting in expeditionary operations. The DoD is developing joint policies for requirements definition, contingency program management, and contingency contracting during combat operations and post conflict operations in coordination with other government agencies in-theater.

Additionally, the Army established the U.S. Army Contracting Command (ACC), the U.S. Army Expeditionary Contracting Command (ECC), and the U.S. Army Installation Contracting Command (ICC), under the command and control of the U.S. Army Materiel Command (AMC). This is expected to enhance the focus on contractor oversight.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

William M. Solis, (202) 512-8365 or solisw@gao.gov

Acknowledgments

In addition to the contact named above, Carole Coffey, Assistant Director; Sarah Baker, Renee Brown, Larry Juneke, Ronald La Due Lake, Katherine Lenane, Susan Mason, Connie W. Sawyer, Jr., and Karen Thornton made key contributions to this report.

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